

TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: Fixed Income -
Home Loan Program Report

ITEM NUMBER: 7

ATTACHMENT(S): 1

ACTION: _____

DATE OF MEETING: January 13, 1999

INFORMATION: X

PRESENTER(S): Ms. Cunningham

EXECUTIVE SUMMARY

One of the 1998/99 objectives approved for the Investment Branch is to revitalize STRS' Home Loan Program (HLP) within the legislative mandates. As a first step in that process, staff presented a Business Plan for the HLP to the Investment Committee in September 1998. In November 1998, the Investment Committee approved the HLP Policy Manual and requested a report on the status of the HLP.

Attachment 1 represents the Home Loan Program Report for the September 1998 to November 1998 period. Included within the report is a comparative analysis of loan production, a review of the loan rates, a report on net contribution to operations, and an update on the major tasks contained within the action plan portion of the Business Plan.

In summary:

- Loan production and volume has increased substantially over previous periods. This can be primarily attributed to the lower interest rate environment.
- Loan rates were either at or just above the market average for both 15 and 30 year mortgage loans.
- Net contribution to operations amounted to \$1.2 million using the Liquidity Portfolio yield as the cost of funds, or \$1.7 million, using the 5 year U. S. Treasury yield as the cost of funds.
- Tasks associated with the revitalization of the HLP are on schedule.

EXECUTIVE SUMMARY

As shown below, during the September 1998 to November 1998 period measured by this report, the Home Loan Program (HLP) loan production rose 111% versus the same period in 1997; the number of loans originated rose from 45 to 95 loans. In terms of volume, \$13.3 million in loans was funded, representing an increase of 102% over the same time period the previous year. In addition, the production levels for both the semi-annual and annual periods also show nearly triple digit gains over prior periods. This can be primarily attributed to the lower interest rate environment.

Home Loan Production Comparison

	1997 # of Loans	1998 # of Loans	% Change
Quarterly (September-November)	45	95	111%
Semi-annual (June-November)	115	225	95%
Annual (December-November))	231	438	89%

	\$Amount	\$Amount	% Change
Quarterly (September-November)	6,581,770	13,304,124	102%
Semi-annual (June-November)	15,983,632	32,736,564	104%
Annual (December-November)	31,092,914	62,849,235	102%

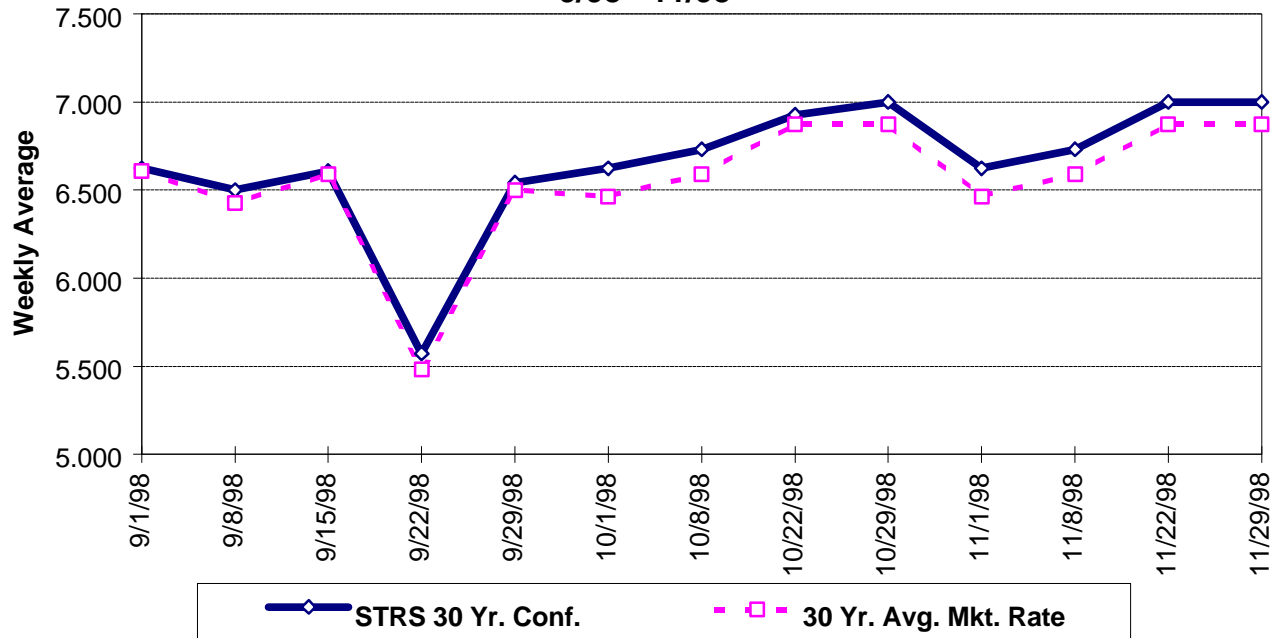
Loan rates during the period measured by this report were either at or just above the market average for both 15 and 30 year mortgage loans (see page 2 of this report). **At no time were STRS' HLP loan rates below market.** In October 1998, a new rate setting mechanism was implemented that will continue to ensure that rates offered by the HLP are competitive in the marketplace, while at the same time providing a sound and prudent investment for the retirement fund.

In terms of the financial contribution from September 1998 to November 1998 (see page 3), the HLP posted a net contribution to operations of \$1,239,860 using the Liquidity Portfolio yield as the cost of funds. For comparison purposes, using the average yield of the five year U. S. Treasury (i.e., a similar duration instrument), the net contribution was \$1,781,103.

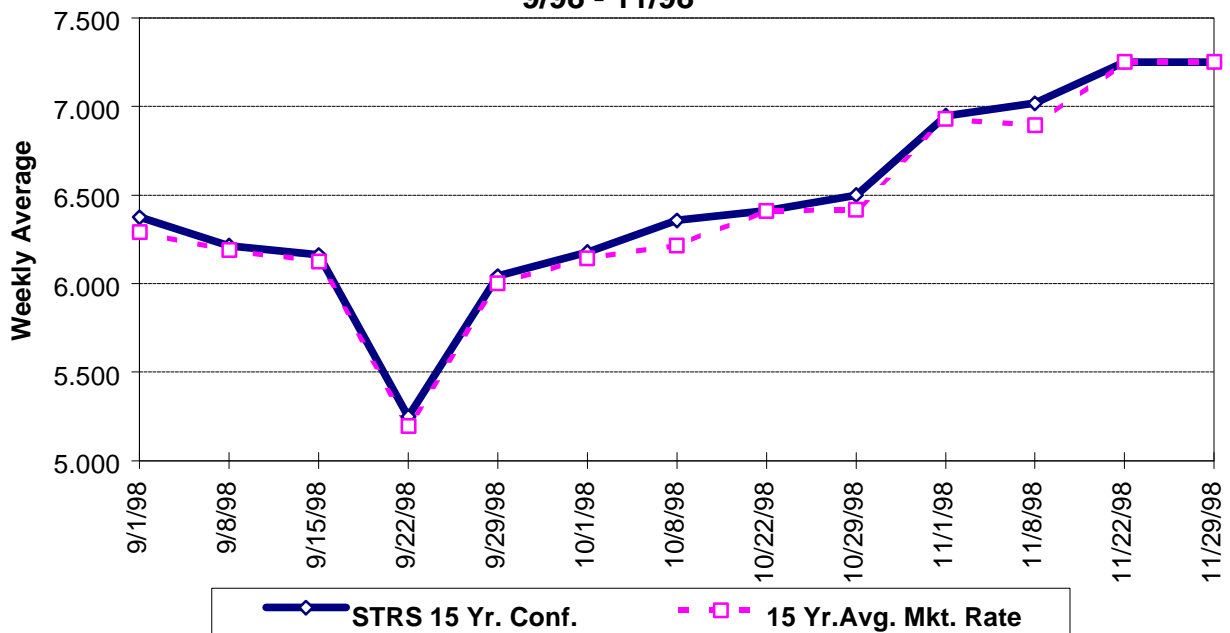
As the table on page 4 demonstrates, the HLP is on schedule with the tasks associated with the revitalization of the HLP. The Request for Information (RFI) has been completed with the intent of expanding the list of correspondent lenders participating in the program. In addition, staff is currently working on implementation alternatives for the Investment Committee to consider with respect to the personal loan option contained within the recent HLP legislation.

HLP LOAN RATES

**30 Year Loan Rates
9/98 - 11/98**



**15 Year Loan Rates
9/98 - 11/98**



HLP FINANCIAL CONTRIBUTION

Although there is no generally accepted performance measurement standard to judge the HLP, the following analysis identifies the program's net contribution to operations taking into account the cash flow, cost of funds, excess servicing and any gains or losses taken as a result of the sale of securities from the portfolio. The first table shows the financial contribution using the Liquidity Portfolio yield as the cost of funds while, for comparison purposes, the second table shows the same data using the 5 year U.S. Treasury (UST) yield as the cost of funds.

Financial Report	09/01/98 to 11/30/98	07/01/98 to 11/30/98
Coupon Income	\$ 3,934,253	\$ 6,568,599
Cost of Funds (liquidity yield) *	(2,892,709)	(4,852,123)
Net Interest Margin	1,041,544	1,716,476
Excess Servicing fee	198,316	405,161
Recognized Gain/Loss	0	(65,164)
Net Contribution to Operations	<u>\$ 1,239,860</u>	<u>\$ 2,056,473</u>

* Reflects the Liquidity Portfolio yield as the cost of funds.

Financial Report	09/01/98 to 11/30/98	07/01/98 to 11/30/98
Coupon Income	\$ 3,934,253	\$ 6,568,599
Cost of Funds (5 year UST yield) *	(2,351,466)	(3,465,330)
Net Interest Margin	1,582,787	3,103,269
Excess Servicing fee	198,316	405,161
Recognized Gain/Loss	0	(65,164)
Net Contribution to Operations	<u>\$ 1,781,103</u>	<u>\$ 3,443,266</u>

* Reflects the 5 year UST yield as the cost of funds.

ACTION PLAN

In September 1998, the Investment Committee reviewed the 1998/99 Business Plan for the HLP which included a strategy for accomplishing the program's objectives. Following are the specific activities identified within that plan, along with the target completion dates and current status.

	<u>Target Date</u>	<u>Status</u>
Transition with Real Estate staff	Aug. - 98	Completed
Present the HLP Business Plan.	Sept. - 98	Completed
Evaluate the current rate structure in order to determine the competitiveness of the product.	Sept. - 98	Completed
Develop a policy manual	Oct. - 98	Completed
Develop procedures manual.	Oct. - 98	Completed
Prepare/release RFI for additional correspondent lenders.	Dec. - 98	Completed
Evaluate RFI responses and select new participants.	Jan. - 99	
Integrate new correspondent lenders into the HLP.	Feb. - 99	
Analyze implementation issues associated with personal loan option.	Ongoing	
Present personal loan option implementation alternatives and recommendations.	1 st Qtr 99	
Enter into discussions with other organizations as to possible cross-programmatic applications.	Ongoing	
Develop and update program marketing brochures and materials.	Ongoing	